

Message Text

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FOR: ARA - MR. FISHLOW; S/P - MR. EINAUDI; L/ARA - MR. GANTZ

E.O. 11652: GDS

TAGS: EINV, EMIN, EGEN, PFOR, PE

SUBJECT: CUAJONE PROJECT - DIMENSIONS OF FINANCIAL REQUIREMENTS

REF: LIMA 0572

1. SUMMARY: A PERUVIAN BANKER, VERY CLOSELY INVOLVED WITH RECENT NEGOTIATIONS BETWEEN SPCC'S PARTNERS AND NEW YORK BANKS OVER CUAJONE PROJECT'S ADDITIONAL FINANCIAL NEEDS, TELLS US THAT NEW YORK BANKS HAVE BEEN RELUCTANT TO LEND SPCC'S PARTNERS CREDITS PENDING COMMITMENT BY LATTER TO INCREASE THEIR EQUITY TO THE POINT WHERE COMFORTABLE LIQUIDITY RATIO OF COMPANY CAN BE MAINTAINED. BANKER STATES FURTHER THAT IN ALL LIKELIHOOD, WITH COST INCREASES IN CUAJONE PROJECT PRIOR TO END OF THE YEAR, FINANCING PACKAGE MAY HAVE TO BE RENEGOTIATED. HE DISCOUNTS GOP PRESSURE ON COMPANY REGARDING DEPLETION CASE, NOTING THAT GOP WOULD PROBABLY PROVIDE COMPANY WITH SUBSTANTIAL PERIOD TO PAY OFF DEPLETION DEBT IF TAX CASE GOES AGAINST THE COMPANY. THERE IS ALSO RELATIVELY SMALL \$7 MILLION INSURANCE CLAIM AGAINST THE COMPANY. FINALLY, HE MENTIONED THAT SPCC'S PARTNERS ARE UNDER INVESTIGATION BY UNITED STATES

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JUSTICE DEPART-

MENT AUTHORITIES FOR POSSIBLE VIOLATION OF ANTI-TRUST REGULATIONS. END SUMMARY.

2. PERUVIAN BANKER, WHO JUST SPENT LAST TWO WEEKS IN NEW YORK NEGOTIATING WITH CHASE GROUP AND SPCC'S PARTNERS TOLD EMBOFFS ON JANUARY 20 THAT CUAJONE PROJECT IS NOW FACING FIVE PROBLEMS OF VARYING MAGNITUDE:

A) FINANCING - BANKER SAID THAT BOTH CHASE AND MORGAN TOOK VERY HARD LINE IN RECENT WEEKS WITH SPCC'S PARTNERS (ASARCO, CERRO, NEWMONT, PHELPS DODGE) ON QUESTION OF ADDITIONAL CREDITS FOR CUAJONE. BEFORE AUTHORIZING INCREASE IN DEBT LIMIT OF \$404 MILLION, BANKERS WANT MORE EQUITY FROM COMPANIES, WHILE COMPANIES SEEK MORE CREDIT FROM BANKS. AFTER LENGTHY NEGOTIATIONS, INITIAL ACCORD WAS REACHED LATE LAST WEEK DURING WHICH COMPANIES AGREED TO CONSIDER PROVIDING \$45 MILLION IN ADDITIONAL EQUITY, WITH AN ADDITIONAL \$90 MILLION PLANNED IN FAVOR OF CREDITS (\$40 MILLION FROM EXIMBANK, \$20 MILLION FROM SUPPLIERS, AND \$30 MILLION FROM COMMERCIAL BANKS). BANKER NOTED THAT IF FOUR PARTNERS ARE NOT ABLE TO RAISE ADDITIONAL SUMS THEMSELVES, THEN BILLINGTON (WHICH ALREADY HOLDS 11 PERCENT SHARE IN CUAJONE PROJECT) MIGHT BE WILLING TO PROVIDE SOME CREDIT, AS WOULD TWO UNNAMED U.S. PETROLEUM COMPANIES. A FINAL DECISION ON FINANCING PACKAGE WILL BE MADE WITHIN TWO WEEKS DURING ANOTHER ROUND OF NEGOTIATIONS IN NEW YORK.

B) LIQUIDITY-RATIO FACTOR - BANKER EXPLAINED THAT CUAJONE CONTRACTS CALL FOR LIQUIDITY RATIO OF 2.7 TO 1 (CURRENT ASSETS TO CURRENT LIABILITIES) FOR SPCC. ORIGINAL 1971 PROJECTIONS PROVIDED FOR BREAK-EVEN POINT FOR CUAJONE AT 50 CENTS PER LB., WHICH CAUSES NO PROBLEMS AT CURRENT PRICE OF COPPER. HOWEVER, WITH PRESENT COST INCREASES, CUAJONE'S BREAK-EVEN POINT IS NOW 53 CENTS PER LB. WITH COMPANY'S EQUITY INCREASED BY \$45 MILLION AND FURTHER CREDITS OF \$90 MILLION, BREAK-EVEN POINT WOULD BE 63 CENTS PER LB., SUBSTANTIALLY BEYOND EXPECTED SMALL PRICE RAISES OF COPPER DURING NEXT YEAR. FINALLY, SHOULD NEEDED \$135 MILLION BE FURNISHED TOTALLY BY CREDITS, CONFIDENTIAL

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BREAK-EVEN POINT WOULD INCREASE TO 72 CENTS PER LB., AN UNTENABLE POSITION FOR THE PROJECT. BANKER BELIEVES THAT AT 63 CENT BREAK-EVEN POINT, PROJECT WOULD GENERATE POSITIVE CASH FLOW, BUT NOT PROFITS, AND THAT IN ALL LIKELIHOOD, MOST OF FINANCIAL PACKAGE WILL IN ANY CASE HAVE TO BE RENEGOTIATED BEFORE END OF 1976.

C) DEPLETION CASE - AS NOTED REFTTEL, DEPLETION

CASE INVOLVES DIFFERING INTERPRETATION OF CONTRACTS. ACCORDING TO BANKER, COMPANY MAINTAINS THAT CUAJONE CONTRACT ALSO COVERS ORIGINAL TOQUEPALA DEPLETION RATIO, BUT GOP MAINTAINS THAT WHILE CUAJONE CONTRACT REMAINS VALID, TOQUEPALA CONTRACT WAS CHANGED BY 1971 MINING LAWS (SEE REFTEL); THUS, THE TAX TRIBUNAL SUIT. BANKER SHARES SPCC OFFICIALS' VIEW THAT GOP WILL NOT FORCE COMPANY TO THE WALL AND THAT, EVEN IF TAX CASE GOES AGAINST COMPANY, GOP WOULD PROBABLY PROVIDE ONE-TO-TWO-YEAR PERIOD FOR REPAYMENT OF TAX LIABILITIES.

D) INSURANCE CLAIM - GOP HAS ALSO SUED SPCC FOR FAILURE TO PROVIDE ADEQUATE WORKER ACCIDENT INSURANCE SCHEME. SPCC WON CASE IN LOWER COURT, BUT APPELLATE COURT RULED IN FAVOR OF GOP. CASE IS NOW ON APPEAL. BANKER DOES NOT BELIEVE THAT THIS ASPECT WILL SERIOUSLY AFFECT FINANCIAL VIABILITY OF PROJECT.

E) ANTI-TRUST ACTION - BANKER SAID THAT FOUR SPCC PARTNERS ARE CONCERNED THAT U.S. JUSTICE DEPARTMENT IS LOOKING INTO THE POSSIBILITY OF BRINGING AN ANTI-TRUST SUIT AGAINST THEM BECAUSE OF ALLEGED COLLUSION IN PROCESSING OF PERUVIAN AND OTHER ORES IN THE U.S. HE DID NOT MENTION DETAILS BUT DID SAY THAT THIS PROBLEM IS OF CONSIDERABLE CONCERN TO COMPANIES' MANAGEMENT.

3. COMMENT: FROM COMMENTS OF ARCHIBALD AND GILLESPIE (REPORTED REFTEL) AND PERUVIAN BANKER, IT APPEARS THAT NEITHER NEW YORK BANKS, THE COMPANIES, NOR THE GOP IS CONCERNED THAT PROJECT WILL FLOUNDER. COMPANY OFFICIALS BELIEVE THAT IN THE FINAL ANALYSIS THE BANKS WILL PROVIDE FUNDS, ALTHOUGH BOTH ARCHIBALD AND GILLESPIE TOLD AMBASSADOR THAT SPCC'S PARTNERS ARE NOT IN A PARTIC-CONFIDENTIAL

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ULARLY ADVANTAGEOUS POSITION TO DO SO. BANKER WAS SUBSTANTIALLY MORE FORTHCOMING REGARDING ACTUAL DETAILS OF FINANCIAL NEGOTIATIONS, PARTICULARLY WITH RESPECT TO THE SENSITIVITIES INVOLVED BETWEEN THE NEW YORK BANKING COMMUNITY AND THE PARTNERS, AS WELL AS TO POSSIBLE AMOUNTS WHICH EXIMBANK MIGHT BE WILLING TO PROVIDE. GIVEN FACT THAT GOP IS CERTAINLY AWARE OF FULL RAMIFICATIONS OF FINANCIAL ASPECTS OF PROJECT'S NEEDS, WE TEND TO THINK THAT, WHILE IT IS LIKELY THAT SPCC MAY BE FOUND GUILTY IN TAX DEPLETION CASE, GOP MAY KEEP FINE TO MANAGEABLE PROPORTIONS, POSSIBLY EVEN TAILORING IT TO WHATEVER FINAL FINANCIAL AGREEMENTS THE PARTNERS, SUPPLIERS, AND COMMERCIAL BANKS MAY FINALLY ARRANGE.

4. THIS CABLE CONTAINS PROPRIETARY INFORMATION THAT

SHOULD NOT BE DIVULGED TO THIRD PARTIES.

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